

At
3/18/2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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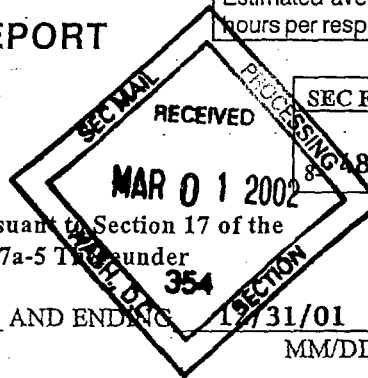
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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY



SEC FILE NUMBER
48082

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: EMN CAPITAL CORPORATION

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

24411 RIDGE ROUTE DRIVE, SUITE 220

(No. and Street)

LAGUNA HILLS, CA 92653

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

DAVID W. SCHOFIELD

(949) 455-0300

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BALSER, HOROWITZ, FRANK & WAKELING

(Name - if individual, state last, first, middle name)

3000 W. MACARTHUR BLVD., #600 SANTA ANA, CA 92704

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 21 2002

THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

2/21/02

OATH OR AFFIRMATION

I, MATTHEW S. MERWIN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FMN CAPITAL CORPORATION, as of DECEMBER 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

11/18/2001

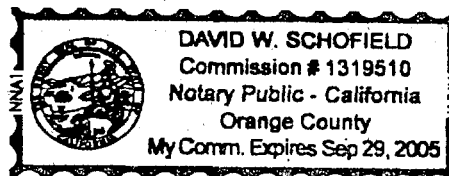
Matthew S. Merwin

Signature

PRESIDENT

Title

David W. Schofield
Notary Public



This report ** contains (check all applicable boxes):

- ☐ (a) Facing Page.
- ☐ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



FMN CAPITAL CORPORATION
INDEPENDENT AUDITOR'S REPORT
December 31, 2001

FMN CAPITAL CORPORATION

December 31, 2001

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BALSER, HOROWITZ, FRANK & WAKELING

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
FMN Capital Corporation
Laguna Hills, California

We have audited the accompanying statement of financial condition of FMN Capital Corporation as of December 31, 2001, and the related statements of income and retained earnings, changes in stockholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FMN Capital Corporation as of December 31, 2001, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Balser, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK & WAKELING

Santa Ana, California
February 25, 2002

3000 WEST MACARTHUR BLVD., SUITE 600, SANTA ANA, CALIFORNIA 92704

TELEPHONE (714) 754-1040 • (562) 425-8585 • FAX (714) 754-0362

BRANCH OFFICE: LONG BEACH

MEMBERS: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

FMN CAPITAL CORPORATION
STATEMENT OF FINANCIAL CONDITION
December 31, 2001

Assets

| | |
|---|----------------------|
| Cash in bank | \$ 81,457 |
| Accounts receivable | 41,088 |
| Note receivable | 50,000 |
| Investments in marketable equity securities | 127,108 |
| Other receivables | 2,204 |
| Prepaid expenses | <u>5,078</u> |
| Total assets | <u>\$306,935</u> |

Liabilities and Stockholder's Equity

Liabilities:

| | |
|-----------------------|-------------------|
| Commissions payable | \$ <u>12,737</u> |
| Total liabilities | <u>12,737</u> |

Stockholder's equity:

| | |
|--|--------------|
| Common stock, no par value, 1,000,000 shares authorized, 93,600 shares issued and outstanding | 18,158 |
| Retained earnings | 268,683 |
| Accumulated other comprehensive income | <u>7,356</u> |

| | |
|----------------------------|----------------|
| Total stockholder's equity | <u>294,197</u> |
|----------------------------|----------------|

| | |
|--|------------------|
| Total liabilities and stockholder's equity | <u>\$306,935</u> |
|--|------------------|

See accompanying notes and independent auditor's report

FMN CAPITAL CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS

For the Year Ended December 31, 2001

| | |
|---|------------------|
| Revenue | |
| Concessions | \$926,337 |
| Other income | 1,296 |
| Investment income | 5,573 |
| Loss on sale of securities | <u>(2,308)</u> |
| Total revenue | <u>931,078</u> |
| Operating expenses | |
| Administrative | 15,082 |
| Commissions | 396,081 |
| Licenses, permits and fees | 10,109 |
| Outside services | 45,128 |
| Shared office expense agreement | <u>247,691</u> |
| Total operating expenses | <u>714,091</u> |
| Income before provision for income taxes | 216,987 |
| Provision for income taxes | <u>2,724</u> |
| Net income | 214,263 |
| Retained earnings at beginning of year, as adjusted | <u>199,420</u> |
| Dividends | <u>(145,000)</u> |
| Retained earnings at end of year | <u>\$268,683</u> |

See accompanying notes and independent auditor's report

FMN CAPITAL CORPORATION

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

For the Year Ended December 31, 2001

| | Common <u>Stock</u> | Retained <u>Earnings</u> | Accumulated Other Comprehensive <u>Income</u> | <u>Total</u> |
|---------------------------------|------------------------|-----------------------------|--|------------------|
| Balances at January 1, 2001 | \$ 18,158 | \$199,420 | \$ 10,143 | \$227,721 |
| Net income | | 214,263 | | 214,263 |
| Other comprehensive income | | | | |
| Unrealized losses on securities | | | (2,787) | (2,787) |
| Cash dividends paid | <u>0</u> | (145,000) | <u>0</u> | (145,000) |
| Balances at December 31, 2001 | <u>\$ 18,158</u> | <u>\$268,683</u> | <u>\$ 7,356</u> | <u>\$294,197</u> |

See accompanying notes and independent auditor's report

FMN CAPITAL CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2001

Cash flows from operating activities

| | |
|--|----------------|
| Net income | \$214,263 |
| Adjustments to reconcile net income to net cash provided by operating activities | |
| Realized loss on sale of investment securities | 2,708 |
| (Increase) decrease in: | |
| Accounts receivable | (35,233) |
| Other receivables | (654) |
| Prepaid expenses | 1,212 |
| Increase (decrease) in: | |
| Commissions payable | <u>10,688</u> |
| Cash provided by operating activities | <u>192,984</u> |

Cash flows from investing activities

| | |
|---|-----------------|
| Proceeds from sale of investments | 8,688 |
| Acquisition of marketable equity securities | <u>(43,719)</u> |
| Cash used by investing activities | <u>(35,031)</u> |

Cash flows from financing activities

| | |
|-----------------------------------|------------------|
| Cash dividends paid | <u>(145,000)</u> |
| Cash used by financing activities | <u>(145,000)</u> |

| | |
|----------------------|--------|
| Net increase in cash | 12,953 |
|----------------------|--------|

| | |
|---------------------------|---------------|
| Cash at beginning of year | <u>68,504</u> |
|---------------------------|---------------|

| | |
|---------------------|------------------|
| Cash at end of year | <u>\$ 81,457</u> |
|---------------------|------------------|

Supplemental disclosures of cash flow information:

| | |
|----------------|-----------------|
| Cash paid for: | |
| Interest | \$ <u>0</u> |
| Income taxes | <u>\$ 4,866</u> |

See accompanying notes and independent auditor's report

FMN CAPITAL CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

Note 1 - Summary Of Significant Accounting Policies

Nature of Business

The Company, a California corporation, was incorporated on January 31, 1995 and adopted a fiscal year of December 31. On March 28, 1995, the Company amended its corporate name to FMN Capital Corporation and commenced operations in June of 1995.

The Company is engaged in business as a broker-dealer of investment securities, primarily mutual funds, limited partnership interests, and annuities. The Company's client base consists mostly of customers within the Southern California area and, therefore, its operations are affected by the financial position of its major customers and economic conditions within that area.

Basis of recognition

Concession revenue and commission expense are recognized based on the trade date of the transaction.

Capital requirement

Under Federal regulations, the Company is required to maintain a minimum net capital of \$5,000.

Cash and cash equivalents

For the purpose of the statement of cash flows, the Company considers all temporary cash investments purchased with a maturity of three months or less to be cash equivalents. The Company had no cash equivalents at December 31, 2001.

Investments

The Company classifies its marketable equity securities as available for sale. Securities classified as available for sale are carried in the financial statements at fair value. Realized gains and losses, determined using the specific identification method, are included in earnings; unrealized holding gains and losses are reported in other comprehensive income.

At December 31, 2001, the Company held investments in marketable equity securities with a fair value of \$127,108 and a cost basis of \$119,752. The excess of fair value over cost of \$7,356 is reported as accumulated other comprehensive income in the statement of changes in stockholders' equity.

FMN CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Note 1 - Summary Of Significant Accounting Policies (Continued)

Income taxes

Generally income taxes have not been provided because the Company's stockholders elected under Section 1362(a) of the Internal Revenue Code and California State law to be taxed as an S corporation effective April 1, 2000. As such, the Company's income or loss and credits are passed through to the shareholders and reported on their individual income tax returns. Accordingly, no provision for federal income taxes or deferred income taxes has been included in the accompanying financial statements. However there is a provision for income taxes which represents a state minimum tax on corporations.

Financial statement estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Note 2 - Related Party Transactions

The Company is related through common ownership to Financial Management Network, Inc. (FMNI), a California Corporation, of which the sole stockholder of the Company is the 100% owner, and Colwin Financial Insurance Services, Inc. (CFIS), a California corporation, of which the Company's sole stockholder is a 50% owner.

The Company has entered into an expense sharing agreement with FMNI, under which the Company would be provided services by FMNI, including the use of facilities, personnel, utilities and supplies. The agreement calls for a monthly base amount of \$10,000 plus an additional amount equal to 80% of the Company's net income after deduction of the base amount. The agreement also stipulates that the Company will not be required to furnish payment to FMNI should any payment cause the Company's net capital to fall below 120% of its net capital requirement under SEC Rule 15c3-1. During the year ended December 31, 2001, the Company paid \$380,511 under the agreement.

As of December 31, 2001, the Company carried a loan to one of its stockholders in an amount of \$50,000. The loan is secured by a deed of trust on certain real property owned by the stockholder. The note currently bears a minimum interest rate of 7% per annum with such interest to increase based on the Federal Rate as defined in Section 7872(f)(2) of the Internal Revenue Code, effective on the date the Federal Rate exceeds the minimum interest rate. The entire unpaid principal of the note and accrued interest, if any, is due on January 1, 2004.

FMN CAPITAL CORPORATION

SUPPLEMENTAL REPORT

DECEMBER 31, 2001

BALSER, HOROWITZ, FRANK & WAKELING

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION

To the Board of Directors
FMN Capital Corporation

We have audited the financial statements of FMN Capital Corporation as of and for the year ended December 31, 2001, and have issued our report thereon dated February 25, 2002. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in pages two through four is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balser, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK AND WAKELING
Santa Ana, California
February 25, 2002

3000 WEST MACARTHUR BLVD., SUITE 600, SANTA ANA, CALIFORNIA 92704

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FMN CAPITAL CORPORATION
SUPPLEMENTAL INFORMATION
December 31, 2001

1. Computation of net capital

| | |
|---|------------------|
| Total assets | \$306,934 |
| Less: Total liabilities | <u>12,737</u> |
| Total ownership equity from statement of financial condition | 294,197 |
| Deduct: Non-allowable assets | <u>103,995</u> |
| Net capital | <u>\$190,202</u> |

The company's required net capital, in accordance with Rule 15c3-1(a)(2), is \$5,000.

2. No material differences were noted between the Company's unaudited filing of Part IIA of the Focus Report and the computation of net capital noted above.
3. The Company is exempt from the provisions of the reserve requirement for Brokers and Dealers under Rule 15c3-3 in accordance with Section (k)(2)(B) of such rule.
4. The Company had no subordinated liabilities at any time during the year.

BALSER, HOROWITZ, FRANK & WAKELING

AN ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
FMN Capital Corporation

In planning and performing our audit of the financial statement of FMN Capital Corporation (the Company) for the year ended December 31, 2001, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives.

Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) list additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the SEC's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.

Balser, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK AND WAKELING
Santa Ana, California
February 25, 2002